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SUBJECT: Barroso's economic stimulant on the rocks?

¶1. (SBU) Summary: The 5 billion euro EU-level portion of Europe's economic stimulus package appears to be foundering on the absence of funds, doubts about its effectiveness and plain old politics. Commission President Barroso will push hard, but a more likely outcome is a longer-term increase in energy and rural infrastructure spending, rather than an immediate fiscal - and political - stimulant. End Summary

¶2. (U) The 27 EU heads of state and government at their December 2008 European Council meeting agreed to devise a 200 billion euro (bn euro) stimulus package for the European economy; EU Commission President Barroso committed to contribute 5 bn euro at the EU level toward this. The Commission's initiative, released with some fanfare last month, included 3.5 bn euro in energy projects and 1.5 bn euro to expand internet connections in the EU's rural areas; this was to be funded with unspent monies in the 2008 budget (much as Barroso had given 1 bn euro for food security last year).

¶3. (SBU) Barroso's plan now appears to be headed for the rocks, according to a top council secretariat official as well as the British and Danish Deputy Perm Reps and the German financial attach. The Commission Legal Service has determined 2008 funds can't be used now that the year's over; the money will have to come from the 134 bn euro 2009 budget -- entailing extensive debate with the European Parliament. The need to cannibalize other expenditures alone raises questions about the stimulus value of the package; that less than 80 million euro (ml euro) would be paid out this year under the package raises eyebrows farther. Added to this, Economic and Finance Ministers meeting Tuesday noted member state actions in response to the crisis, at 3.3 percent of EU GDP, already exceed the European Council's request; they thus see little need for something at the EU level, which would be both too small and too late to do much good for the economy. Finally, although the Commission reportedly chose the energy and IT projects with a healthy pork-barrel eye to appeal to all member states, at the initial Feb. 11 Deputy Perm Rep discussion of the project lists, virtually all member states said the projects were either insufficient or inappropriate -- underlining how difficult it is to please 27 countries at once.

¶4. (SBU) Enacting a package is politically extremely important to Barroso, who counts on being re-appointed Commission President later this year and who also wants to demonstrate to the public in those member states -- like Ireland -- that haven't yet ratified the EU's new Lisbon Treaty that the EU is relevant to their daily lives.

¶5. (SBU) Resolving the conflict between Barroso's political imperatives and the economic doubts falls primarily to Matthias Ruete, the EU Commission's Director General for Energy and Transport. Ruete, who played a key operational role in the EU's engagement in the Russia-Ukraine gas dispute, is respected by his member state counterparts, but at least right now even his friends are betting he will not be able to get member state and European Parliament agreement on legislation that would include a list of projects and a source of funding for them before the European

Parliament recesses in May for its June elections. A more likely scenario, according to the Germans, would be much longer term: the Commission would come back to member states and the Parliament with a plan for energy and IT projects that would be properly budgeted for and worked on over the medium term. Appropriate, perhaps. But then neither Mr. Barroso, nor Europe, would get the EU-stimulus they seek.

MURRAY